

May 17, 2010

## AGILITY (AGLT.KW)

**12-Month Fair Value: Under Review**

**Last Close (16 May, 2010): KD 0.560**

**Recommendation: Under Review - Risk Level: Under Review**

- The 1Q2010 financial results of Agility reflect the impact of the drawdown of US troops in Iraq and the phasing-out of some of the large government contracts, most notably the Subsistence Prime Vendor (SPV) contract. The SPV is expected to expire in December 2010, and the Defense and Logistics Agency (DLA) has awarded the replacement contract to another firm. The expiring US government contracts have historically contributed around 25-35% of revenue.
- Agility has issued a detailed press release describing the transformation phase it is going through. The press release highlights three challenges facing the company: 1) the anticipated troop drawdown in Iraq, 2) the slower-than-expected recovery from the global recession and 3) the legal proceedings by the US government.
- Due to the decline in revenue from contracts that are nearing completion, we will be analyzing Agility's performance from both a year-on-year (YoY) and a quarter-over-quarter (QoQ) perspective.
- Agility's revenue dropped by 1% YoY (14.4% QoQ) to KD 403 million. Though GIL had a 14% increase in revenue YoY (6% decline QoQ), DGS experienced a sharp drop in revenue of 25% YoY (29% QoQ). The decline in the DGS revenue highlights the company's inability to renew or win new business in other regions due to its suspension by the US government.
- Net revenues declined by 17.4% YoY, as it was impacted by the decline in DGS revenue and the pressure on freight forwarding margins. In 2009, Agility was able to boost GIL margins by attaining favorable prices from suppliers; however, this trend has reversed in 2010 as carrier prices are on the rise.
- EBITDA dropped by 43% YoY in 1Q2010 (44% QoQ), a result that is driven by the drop in DGS revenue and the decline in GIL margins. Net income, on the other hand, dropped by 52.4% YoY (57% QoQ), with guidance from Agility for further declines in profitability over the next four quarters.
- Cash flow from operating activities held up better than net income, declining by 24% YoY to KD 62 million (33% increase QoQ). Agility has KD 51 million in inventory, which we expect to decline further as contracts expire and boost the company's cash flows in the short term. Agility's balance sheet remains strong, with cash exceeding debt by KD 7 million.
- Without providing any new information on the legal dispute, management have highlighted that DGS will be aggressive in rebuilding its business if Agility is able to reach a settlement with the US government. Moreover, management has indicated that they have contingency plans if they fail to reach a settlement, without elaborating on the matter. GIL, which is becoming Agility's most important segment, will witness an accelerated implementation of its strategy.
- Due to the legal dispute with the US government, we maintain our status on Agility as "Under Review."

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### Related Research

- [Agility Analyst Comment - 15 April 2010](#)
- [Agility Analyst Comment - 12 April 2010](#)
- [Agility Analyst Comment - 04 February 2010](#)
- [Agility Analyst Comment - 23 December 2009](#)
- [Agility Analyst Comment - 18 November 2009](#)
- [Agility Analyst Comment - 17 November 2009](#)
- [Agility Update - 25 June 2009](#)

## RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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